

BUSINESS CASE



Opportunistic Stock Trading

Angus and Kelly Whyte run Wyndham Station, a sheep and cattle property north of Wentworth in New South Wales. Like many properties in this region, Wyndham Station experiences variable seasons. In some years they don't have enough feed, while in other years they experience a feed surplus and seek opportunities to make the most of available feed. While fitting into the property's current workforce and aligning with the business plan for the property, opportunistic livestock trading has enabled the Whyte's to take advantage of good seasons and surplus feed at Wyndham Station.

The business case 'Opportunistic Stock Trading' has been developed as a real example of a formal planning process. This business case aims to provide useful information and tools to help you make a decision for your own business.

You can use the method shown here to help prepare your own business case and assess this innovation on your own property.



Figure 1: Angus Whyte at a watering point on Wyndham Station.



Figure 2: Sheep at Wyndham Station.

BUSINESS SNAPSHOT

OWNERS

Angus and Kelly Whyte

PROPERTY NAME

Wyndham Station

PROPERTY LOCATION

85km North of Wentworth on the Anabranche River, NSW

SIZE OF PROPERTY

12,500 hectares

BRIEF ENTERPRISE DESCRIPTION

A sheep and cattle operation utilising rotational grazing to manage pastures.

NUMBER OF PEOPLE WORKING IN THE BUSINESS

2 people working in the business (1.2 full time equivalents)

AVERAGE ANNUAL RAINFALL

260mm

WHY THIS IS A PASTORAL ZONE INNOVATION

In good years, excess feed supply is often wasted on pastoral properties. Opportunistically trading stock captures the excess feed and increases income for the business.

Section 1: Opportunistic Stock Trading on Wyndham Station

BACKGROUND

Angus Whyte is a 4th generation farmer who manages a 12,500ha property on the Anabranche River in Western NSW. Angus operates the business with his wife Kelly and son Mitchell.

They graze sheep and cattle as well as cropping some of their flood country when the opportunity arises. They have a strong focus on how they can manage the landscape and look after their stock, vegetation and wildlife.

Angus and Kelly's motivation to change was based on the following reasons:

- The business wasn't achieving income goals
- Lambing percentage was below their goal
- Due to variable seasonal conditions, in some years there was not enough feed but in other years, they saw opportunities to use excess feed
- Due to the variable seasonal conditions, the property couldn't implement a set stocking rate system
- Labour is a scarce resource and the Whytes were looking for an option that didn't require more labour

To maintain the balance between the environment and production, they have implemented rotational grazing. Implemented in 2001, rotational grazing allows them to undertake a variety of management practices to achieve vegetation diversity. Angus and Kelly also aim to use as little chemical as possible to not disrupt the natural system.

Since implementing rotational grazing and increasing the paddock numbers from 8 to 33, the carrying capacity of the property has doubled.

WHAT IS THE VISION

Angus and Kelly manage Wyndham Station with a strong environmental focus. Angus's approach to managing livestock is to ensure that the stock:

- Always have enough feed to keep them healthy; and
- Have enough plant diversity to meet nutritional requirements.

Their goals are:

- Annually achieve 100% return on investment in livestock
- Improve stocking rate and land management
- Manage stocking rate to the conditions without emotional or financial penalties

OUTLINE OF THE OPTIONS

Angus and Kelly considered their options for trading stock on Wyndham Station. These are identified below.

Table 1: The options the Whytes have considered.

Option	Description
1	Make no change to the livestock enterprise, maintain current stocking rate and lambing percentage (70%).
2	In addition to current enterprise, capitalise on a good season by opportunistically purchasing sheep.

Option 1 is likely to result in a 70% lambing percentage on average, not realising the full stocking rate available on the property to make use of excess feed. This is the traditional self-replacing approach.

Option 2 is in addition to the current enterprise (Option 1), where on top of self-replacing, you opportunistically buy and sell sheep. In good years, the excess feed can be taken advantage of by increasing the stocking rate. In drier years, the stocking rate can be decreased to match feed availability. It also helps to ensure the trade is profitable.

WHAT ARE THE LIKELY BENEFITS OF EACH OPTION?

Each option could provide potential benefits to the business. Table 2 lists the likely benefits identified for each option at Wyndham Station.

Table 2: The benefits of the options.

Option 1: Maintain current situation	Option 2: Opportunistically trading stock
<ul style="list-style-type: none"> • No biosecurity risk • No extra cost • It's easy • Less feed risk in dry conditions 	<ul style="list-style-type: none"> • More business flexibility • Can match stocking rate to carrying capacity • Can lock in a good return on investment • Looks after the land resource • Can sell the livestock if the season changes, as they are not the core business

OPPORTUNISTICALLY TRADING STOCK

The chosen option (option 2) was to focus on opportunistically trading stock. It was the chosen option for the following reasons:

- It complimented the existing enterprise.
- The option protected the landscape.
- Instead of relying on fertility for income generation, the Whytes could also trade stock.
- A significant value is placed on the ability of a rotational grazing system to increase landscape productivity.
- The ability to stock and destock as necessary is aligned with both rotational practices and environmental importance of the enterprise.

Angus treats all of the animals as "stock in trade", even though the station may only do 2 to 3 trades each year. They know the costs of the enterprise associated with the livestock production at all times. This helps them to make management decisions when they either have excess feed, or are running short. The Whyte's employ a livestock marketing consultant to assist them make these management decisions.

Figure 3: Sheep at a cell centre watering point at Wyndham Station.



KEY LEARNINGS AND BENEFITS

The key learnings Angus and Kelly have observed from implementing this project include:

- Understanding their business and the environment so that you can make the right decisions;
- Making decisions based on business goals
- Having supportive groups of people around to assist with decision making; and
- Undertake training to help with management.

Additional benefits that resulted from implementing the project include:

- Increased networks and a supportive stock agent;
- A better relationship with their stock agent;
- Improved return on investment;
- A better understanding of the business and its profit drivers; and
- Matching stocking rate with available feed and therefore being more flexible.

From here, Angus and Kelly are:

- Further assessing the options to fill a financial budget shortfall, rather than breeding more lambs.
- Looking at how they can get the income they require without compromising the landscape and people in the business.

Figure 4: Sheep at Wyndham Station.



Figure 5: Vegetation at Wyndham Station.



Section 2: How to use a business case to assess 'opportunistic stock trading'

AIM OF THE BUSINESS CASE

A business case is a practical process to assess investment options; whether it is a new practice or a piece of machinery. This business case aims to assess opportunistically trading stock which will achieve the Whyte's business objectives.

Section 1 details the Whyte's experiences in shifting to opportunistically stock trading. The following section will show how a business case can be used to formally assess the costs, risks and other considerations involved when making an important business decision.

WHAT ARE THE COSTS?

Assessing the costs of buying stock and the cost of production is vital to knowing your target sale price and therefore calculating your target profit.

Opportunistic stock trading builds on the opportunities a good season brings.

The Whytes goal for opportunistic stock trading is to achieve at least 20% profit as a percentage of income (which includes variable, overheads and finance costs). It is dependent on how the business operates as to how this benchmark figure/goal is determined.

Assumptions included in the Table 3 are as follows:

- All figures are calculated as per head per year.
- The figures shown for the trading stock option are the average of various trades, as each month or year may see different trades take place.

These figures may change depending on the numbers on your property. It provides an indication of the costs and how to determine the level of profit, before overhead and finance costs, for business planning. A blank template for you to assess the costs on your property is in Section 3.

Table 3: The costs of trading stock on Wyndham Station, figures are calculated per head.

Costs per head		Income per head	
Purchase cost	\$52.20	Sale price	\$80.50
Variable costs		Wool	\$48.75
Freight in	\$11.50		
Freight out	\$5.00		
Chemicals	\$1.00		
Shearing	\$10.00		
Wool selling and freight	\$1.95		
Livestock selling costs	\$3.22		
Total costs:	\$84.87	Total income:	\$129.25
Margin before overheads and finance			
Income - costs =		\$44.38	
Profit Goal, as a % income			
Income x 20% =		\$25.85	
Profit, as % of income			
Margin / total income =		34%	
Variance			
Margin - profit goal =		\$18.53	

These figures show that the Whyte's made \$44.38/head margin, before overhead and finance costs. This represents 34% margin, as a percentage of income (before overhead and finance costs are considered).

On top of continuing the self-replacing approach, opportunistic trading gave Angus and Kelly the ability to take advantage of excess feed in good years and destock in drier years. It gave them a process to understand their profit margins, and set business goals with target sale prices and sale dates.

WHAT ARE THE LIKELY RISKS?

When considering implementing a new practice into your business, it is valuable to consider the potential risks of doing so. For this business case, a number of risks and strategies for managing these risks have been identified. The impact of the risks can be mitigated if management approaches are implemented to protect the business.

Table 4: The risks associated with opportunistically trading stock.

What is the risk?	How can this risk be managed?
Biosecurity risk	<ul style="list-style-type: none"> • Effective research prior to purchasing stock • Understand the biosecurity risk you could be bringing onto your property • Undertake internal quarantine for the animals to acclimatize, and for you to closely assess their condition
Buy price	<ul style="list-style-type: none"> • Undertake market research prior to buying • Identify and receive reliable sources of market information • Know your cost of production, develop a budget – know what you can afford • Work closely with your stock agent • Have a good relationship with your bank manager and have access to funds • Test the impact of mortality rate on your budget
Sell price	<ul style="list-style-type: none"> • Undertake effective research prior to purchasing stock • Know your break-even price based on your cost of production, and incorporate this with profit margin to develop your target price • Contract sale price to lock in a margin • Work closely with your stock agent and bank manager/accountant
Availability of labour	<ul style="list-style-type: none"> • Understand the amount of labour required • Implement efficient work processes • Plan ahead, and implement an effective recruitment strategy if labour is not currently available within the business • Practice effective people management to aid employee retention
Do not know genetics of stock being purchased	<ul style="list-style-type: none"> • Undertake effective research prior to purchasing stock to gain as much information about the history of the genetics of the line of stock as possible • Understand what traits to visually target when buying
Do not know the nutrition history of livestock	<ul style="list-style-type: none"> • Undertake effective research prior to purchasing stock • Know the change in feed and its impact on growth rate • Be aware of the impact of grass seeds
Over-estimate feed available	<ul style="list-style-type: none"> • Assess available carrying capacity of the land and available feed • Increased knowledge and awareness of the land • Use grazing charts, measure feed and create feed budgets • Undertake feed tests to determine feed quality and quantity before purchasing stock and repeat periodically throughout the stocking period
Seasonal risk	<ul style="list-style-type: none"> • Study short and long term weather forecasts to assess and plan for season cut-off • Project future stock numbers and rainfall and use a grazing chart • Know carrying capacity of land and available feed • Undertake feed tests to determine feed quality and quantity before purchasing stock and repeat periodically throughout the stocking period

WHAT ELSE IS THERE TO CONSIDER?

When making a decision, the cost of implementation isn't the only thing to consider. To undertake a robust comparison, other areas are identified. Other areas to consider include implications to Workplace Health and Safety (WHS), labour, time requirements, and how easy the innovation will be to implement. Table 5 below shows a range of factors for consideration if choosing to opportunistically trade stock, in addition to the current self-replacing approach.

Table 5: Other implications to the business to consider when assessing to trade stock.

What to consider?	Option 1: Maintain current situation	Option 2: Opportunistically trading stock
WHS	<ul style="list-style-type: none"> Stress from not reaching financial goals 	<ul style="list-style-type: none"> Unloading stock on a new property Increased chemical use to induct stock
Labour	<ul style="list-style-type: none"> Maintain labour 	<ul style="list-style-type: none"> More labour required with loading stock More labour required in the short-term to train stock with low stress handling techniques Less labour required in longer-term as low stress handling techniques are implemented
Ease of implementation	<ul style="list-style-type: none"> Very easy, anyone could do it 	<ul style="list-style-type: none"> More difficult initially; need training, support, encouragement and a supportive network Initial hard work will pay off in the longer term Applicable to any environment or system The further away you are located from the delivery point, the less trades you will want to do to make freight efficient
Time taken to implement	<ul style="list-style-type: none"> No extra time, limited decision making 	<ul style="list-style-type: none"> Easier and quicker with time and experience Takes time to carry the stock and realise the full financial benefits
Environment	<ul style="list-style-type: none"> No significant change 	<ul style="list-style-type: none"> Enable full achievement of land and livestock goals No hesitation to destock when dry

FURTHER INFORMATION

For more information, please contact:

- Wyndham Station; <http://wyndhamstation.com.au/>
- KLR Marketing; <http://www.klrmkteting.com.au/>
- Low Stress Stock Handling; <http://www.lss.net.au/>

Figure 6: Native pasture on Wyndham Station.



Section 3: How can you make the change?

Section 3 provides all of the tools necessary to work through a business case process to assess a change. You can assess the option of trading stock on your own property by completing the templates below.

WHAT ARE THE OPTIONS?

Identify three feasible options for you to move forward and assess opportunistically trading stock. One option can be to stay as you are and make no change. Other options may be variations on the Whyte's option, what is available to you, and what suits your enterprise? You can therefore compare your current situation with other options.

Option	Description
1	
2	
3	

WHAT ARE THE LIKELY BENEFITS?

Benefits can be measurable, such as income and wool yield; or non-measurable, such as safety and achievement of business goals. Assess the benefits you assess for you and your property in the table below for each of the options.

Option 1	Option 2	Option 3

WHAT ARE THE LIKELY COSTS?

Assessing the costs of buying stock and the cost of production is vital to knowing your target sale price and therefore calculating your target profit. Opportunity stock trading builds on the opportunities a good season brings.

Use the blank template to work through the process to assess the opportunity for your business. These are the costs and the income of trading sheep, before overhead and finance costs.

Target profit as a percentage of income: _____ %

Costs per head		Income per head	
Purchase cost	\$	Sale price	\$
Variable costs	\$	Wool	\$
Freight in	\$		
Freight out	\$		
Chemicals	\$		
Shearing	\$		
Wool selling and freight	\$		
Livestock selling costs	\$		
Total costs:	\$	Total income:	\$
Margin before overheads and finance			
Income - costs =		\$	
Profit Goal, as a % income			
Income x 20% =		\$	
Profit, as % of income			
Margin / total income =		%	
Variance			
Margin - profit goal =		\$	

WHAT ARE THE LIKELY RISKS?

When considering implementing a new practice into your enterprise or business, it is valuable to consider the potential risks. The impact of the risks can be mitigated if management approaches are identified and implemented to protect the business.

Identify the risks of your chosen option/s (you may need to adapt the table if assessing more than one option). Consider management strategies to control these risks.

1. What can you do to reduce the risk?
2. How can the risk be mitigated?

What is the risk?	How can this risk be managed?

WHAT ELSE IS THERE TO CONSIDER?

When making a decision, the cost of implementation isn't the only thing to consider. To undertake a robust comparison, other areas are identified. Other areas to consider include implications to Workplace Health and Safety (WHS), labour, time requirements, and how easy the innovation will be to implement.

1. Identify different aspects for your property.
2. Assess the impact on your property against the options. Identify how each option can be implemented, the impact on your business and property, and how you can address each aspect.

What to consider?	Option 1	Option 2	Option 3

CONTRIBUTORS

Bestprac would like to acknowledge to contribution of Angus and Kelly Whyte, Wyndham Station.

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